TRADE

While international trade agreements are a federal file, the Board is very encouraged by the provincial government’s efforts to support NAFTA. Market access to the United States and Mexico is essential to Ontario’s economy and the Province’s recent efforts to discourage states from adopting “Buy American” provisions are important steps that preserve this access.

The threat to NAFTA also provides a powerful reminder that diversifying our trade is necessary. While new trade agreements such as CETA and CP-TPP create new business opportunities, businesses, especially small and medium-sized enterprises (SMEs), need the tools to realize success. The government’s investment in trade services programs, such as the Accelerate to International Market program, are a good investment in future growth.

The Board is still looking to the Province to show leadership on interprovincial trade. While the Canadian Free Trade Agreement reduced interprovincial trade barriers and provided modest steps towards a freer movement of goods, services and people within Canada, more can be done, including better credential recognition for trades and professions.

INFRASTRUCTURE & TRANSPORTATION

The Board has consistently supported the provincial government in its historic levels of investment in the Toronto region’s transit and transportation infrastructure as part of its $230 billion infrastructure plan. However, while the provincial and federal governments continue to provide more funding, needed projects are stalled. Some of this is due to unnecessarily long planning and approval timelines, such as environmental assessments for municipal infrastructure. Most of the problem is based on the challenges municipalities face in funding new infrastructure. Those projects that do move ahead often fail to properly integrate land-use planning and development with new infrastructure.

Toronto faces a growing and unsustainable funding gap—municipal revenues are insufficient to meet its provincially designated service and infrastructure responsibilities. This includes the unusual burden of operating and maintaining two regional highways—the Gardiner and Don Valley Parkway—and the country’s largest stock of community housing which would normally fall under provincial jurisdiction.

In light of these challenges, the Board recently put forward a plan to upload regional transportation to the province. Dubbed Superlinx, this plan would give the Province the authority to move forward on needed transit lines as well as include better land-use planning and greater private sector investment. Keeping with the status quo means continued delays, less housing and poorer transit. While Budget 2018 indicates the government will investigate whether major transit assets would benefit from provincial ownership, the Board believes a truly comprehensive plan that uploads all transit and planning will bring the greatest benefits.
Ontario has long lagged behind competing jurisdictions in its research and development (R&D) spending, a crucial driver of innovation and productivity growth. The expansion of existing R&D tax credits in Budget 2018 represents long-needed action by the government to address this issue. In particular, the changes to the Ontario Research and Development Tax Credit may provide new incentives for large, multinational corporations to consider Ontario when apportioning their R&D funds. However, it is unclear whether this expansion of tax credits is sufficient enough to overcome Ontario’s long-standing weakness in this area.

The increased support of the Jobs and Prosperity Fund (JPF) by $900 million over 10 years enhances an existing tool for the government to invest in key areas of the economy. It remains incumbent on the government to invest these funds where they will make the greatest economic impact. Reinvesting in the province’s cluster strategy—a noticeable omission in Budget 2018—would be a good start. With both the JPF and R&D tax changes, it remains to be seen whether these changes are significant enough to overcome the broader competitive challenges faced by businesses in Ontario.

Ontario’s workforce is the core of our economic prosperity, providing the talent needed for businesses to succeed and the economy to grow. The Board is pleased with the government’s expanded investments in talent and training, including the introduction of the Good Jobs and Growth Plan (GJGP), a $935 million investment over the next three years. The GJGP includes more investment in experiential learning, training programs and labour market information that will benefit businesses. Unfortunately, the new Ontario Apprenticeship Strategy included few details on how to address poor completion rates and makes no mention of review apprenticeship ratios.

While our workers need proper education and training, they also require quality and affordable housing. The Board remains concerned the government’s approach to this problem is too focused on attempting to reduce demand, when the true problem is a lack of supply. We encourage the government to reverse rent controls and other regulations to encourage private sector investment in needed housing.

While the government is making some beneficial investments in infrastructure, economic development and training, its overall approach to the general business climate has been poor. Businesses face rapidly rising costs in key inputs such as energy and labour, often as a direct result of government action. In particular, the sudden increase in the minimum wage to $14 per hour lacked any kind of supporting analysis or proper offsets for businesses. Businesses continue to face substantial red tape and the government’s efforts to reduce these costs have been lacking.

In April, the Board will release a report focusing on how competitive Ontario is compared to nearby jurisdictions which will indicate the scope of the challenge that we face.
For many years, the government has touted low corporate taxes as an important advantage that offset these costs. However, as the Board warned in its 2017 budget report card, tax cuts in the United States had the potential to eliminate Ontario’s key advantage: lower corporate tax rates. The recent tax changes passed by Congress have eliminated this advantage, making the province’s weaknesses in energy, labour and regulatory costs even more glaring. For a small, open and export-driven economy like Ontario, investment is needed to drive economic growth and job creation. The government’s own projections for future growth heavily rely upon strong business investment, an acknowledgment of the central role that businesses play in Ontario’s success.

The lack of a plan in this budget to address this is extremely disappointing. In fact, by matching recent federal changes on the tax treatment of business income and investment, some enterprises may even see their taxes increased. Investors aren’t waiting to see whether Ontario remains competitive, and the government shouldn’t be waiting until investment and jobs leave the province for better business environments.

**FISCAL MANAGEMENT**

The Board was optimistic that the 2017 budget represented the beginning of a trend of balanced budgets. While the province would surely face future fiscal challenges, we warned that in a growing economy, balanced budgets should be the expectation, not the exception. Given that Ontario continues to exhibit strong growth, there is no excuse to be going into deficit.

*Budget 2018* projects a risky path forward, projecting a $6.7 billion deficit in 2018-19 and calling for five more years of deficits following that. This unrestrained spending is also founded on risky assumptions, foreseeing no recessions over this period and assuming future spending restraint can be achieved with an older population and slower economic growth. Furthermore, the government’s own projections indicate that interest rates are expected to rise. With more than $75 billion in debt reaching maturity in the next three years, this presents a substantial risk of higher interest payments.

While the Board understands the importance of social spending, it must be supported by sound finances. Adding billions to the debt to pay for social programs today only forces future generations to pay for today’s benefits. Moreover, the rapid announcement of these new spending priorities calls into question whether such money can be invested wisely.

Budgets are ultimately about setting priorities and by going back into deficit, the government is avoiding making sustainable financial decisions.
OVERALL RATING: C-

On the eve of the 2018 election, Ontario faces a number of opportunities and challenges. Economic growth is strong, trade agreements are opening new markets internationally and billions are being invested in infrastructure and training. However, the cost of doing business continues to rise sharply—often due to government policy—our biggest competitor has cut taxes and needed investments are being stalled by an outdated implementation strategy. The government’s response to these challenges in this budget has been limited and adds billions in unnecessary debt.

The Board shares the government’s values of fair and inclusive growth, but we approach them from an economic lens, by creating the conditions for our businesses to grow and create jobs, and for our talent to have access to opportunities to succeed. The Board remains focused on our Agenda for Growth and a plan to achieve prosperity for all of Ontario’s businesses and residents. We invite all parties to join us in this important work.

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